

FUND ACCOUNTING TRAINING

Module 2

Current Funds

The University of Texas System

OBJECTIVES



Obtain understanding of:

- Difference between Current Funds and Noncurrent Funds
- Difference between Unrestricted and Restricted Funds
- Three fund categories in Unrestricted Funds:
 - Educational and General
 - Designated
 - Auxiliary Enterprises
- How/why transactions are posted to these funds
- Some basic journal entries

CURRENT FUNDS

Definitions and General Information:

Current Funds are resources that are expendable, in the near term, for the chief missions of the institution:

Instruction

Research

Patient Care

Public Service

Auxiliary Enterprises

These resources are available for operating purposes; therefore, Current Funds are sometimes referred to as “Operating Funds.”

The Current Funds group includes two basic subgroups: Unrestricted and Restricted.

- Unrestricted Current Funds include all funds received for which a donor or other external agency has not specified an expense purpose.
- Restricted Current Funds are available for financing operations but are limited by donors and other external agencies to specific purposes, programs, departments, or schools.

CURRENT FUNDS (CONTINUED)

Externally imposed **restrictions** on funds are NOT the same as internal **designations** imposed by the governing board. Internal designations do not create restricted funds; removal of the designation remains at the discretion of the governing board.

When resources flow into an institution, the **purpose** for which they are made available dictates the fund group to which they will be added. Any resource that could be used for **operating** purposes must be recorded initially as revenue in Current (Operating) Funds. This is true for both unrestricted and restricted funds.

For example, suppose a donor stipulates that his gift be used for the construction of a new gymnasium. Since this is a nonoperating purpose, it will most appropriately be recorded initially in Plant Funds as gift revenue for capital acquisition.

CURRENT FUNDS (CONTINUED)

Another donor requests that her donation be used “for the pharmacy department.” In this case the resources could be used for operating purposes (in the pharmacy department only) and should be recorded in Restricted Funds as “Gift Contributions for Operations.” However, the constraint does not give a time period for the expense, so the governing board may wish to transfer the resources from Current Funds to Endowment and Similar Funds, where they will “function as an endowment.” If this is done, the donor’s restriction applies to use of the income from the investment. The restriction will continue to apply for as long as the funds functioning as endowments exist, and it would also apply to the endowment principal, if the governing board subsequently decided to liquidate the funds function as endowment and spend the principal.

There cannot be a direct addition to endowment funds under such circumstances because of the need to disclose the administrative decision to move funds available for operations to another fund group.

EXAMPLES:



A donor stipulates that his gift is to be used to construct a gymnasium.

This is a nonoperating purpose.

The gift should be recorded initially in Plant Funds.

EXAMPLES:

A donor requests that her donation be used “for the pharmacy department.”

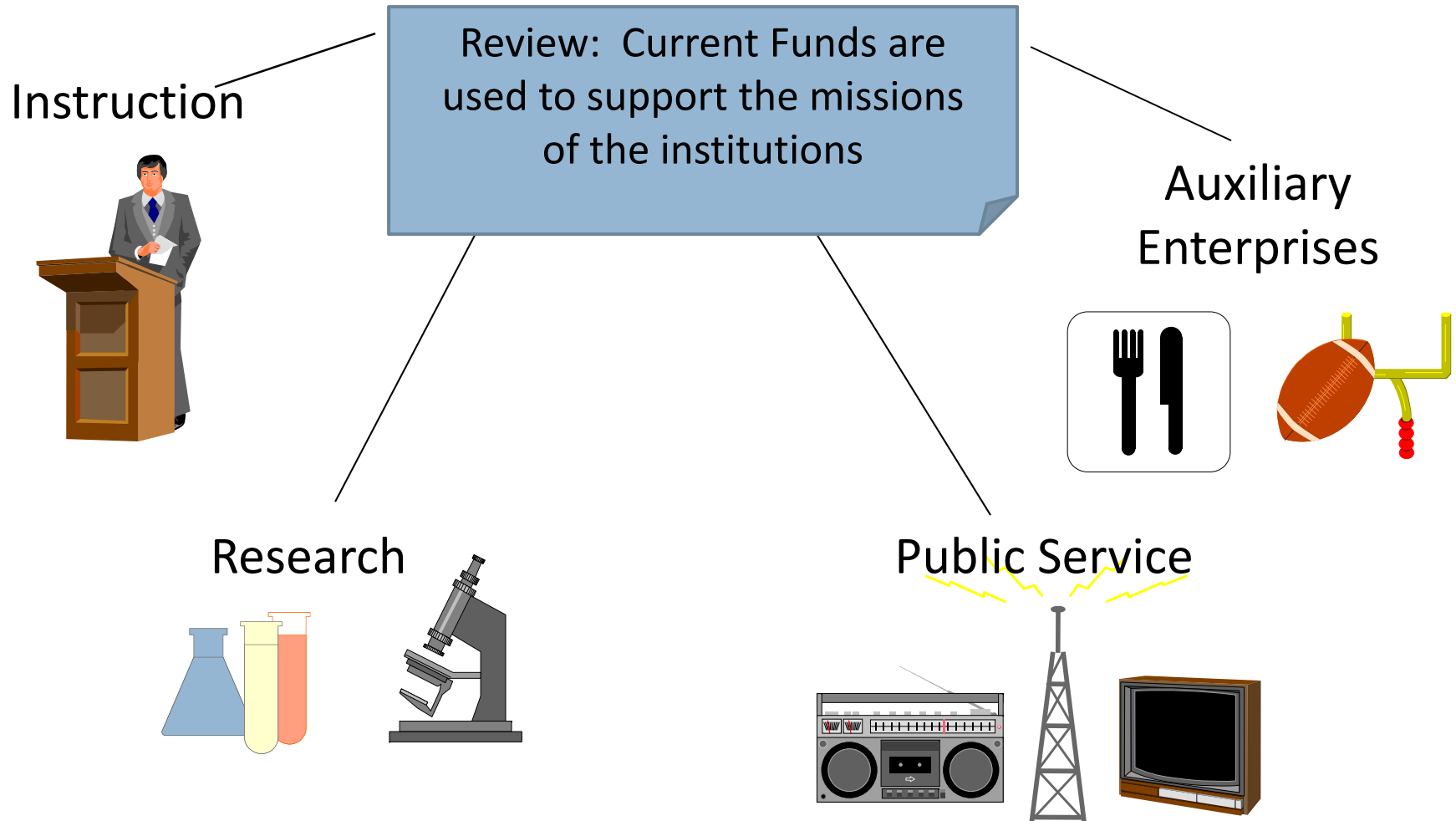
The resources could be used for operating purposes (in the pharmacy department only).

The gift should be recorded in Restricted Funds.



Restricted Funds differ
from Endowment Funds

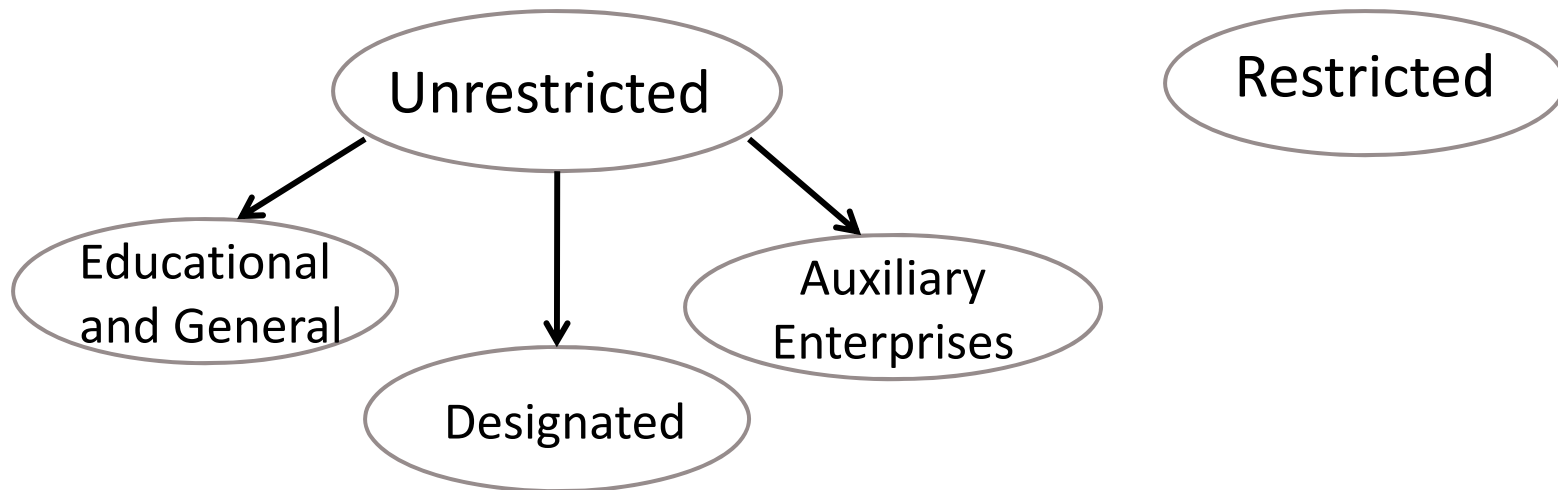
CURRENT FUNDS (CONTINUED)



CURRENT FUNDS (CONTINUED)

In addition to reporting revenues by source and expenses by classifications, transactions must be shown in the appropriate fund category. In Current Unrestricted Funds there are three fund categories:

- Educational and General funds (called “General Funds”)
- Designated Funds
- Auxiliary Enterprises funds



UNRESTRICTED CURRENT FUNDS REVENUES

Unrestricted Current Funds are available for any current operating purpose. Because there are no external constraints on the use of these resources, unrestricted fund income is considered revenue when earned. These revenues must be reported by source in the year received on the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA) (Exhibit B). Examples of these sources are:

- Tuition and Fees
- State Appropriations
- Sales and Services of Hospitals, Educational Activities, or Auxiliary Enterprises
- Professional Fees

UNRESTRICTED CURRENT FUNDS REVENUES (CONTINUED)

The *Annual Financial Report* classifies expenses by both **functional** and **natural** classifications. The following lists the classifications utilized.

Functional

- Instruction
- Research
- Public Service
- Hospitals/Clinics
- Academic Support
- Student Services
- Institutional Support
- Operations and Maintenance of Plant
- Scholarships and Fellowships
- Auxiliary Enterprises
- Depreciation

Natural

- Salaries and Wages
- Payroll Related Costs
- Professional Fees and Services
- Materials and Supplies
- Repairs and Maintenance
- Travel
- Utilities
- Scholarships and Fellowships
- Depreciation
- Etc.

EDUCATIONAL AND GENERAL FUNDS REVENUES

Educational and General (E&G) Funds – these funds can be used for any lawful purpose. The largest revenue items in this fund include:

- State Appropriations
- Hospital Revenues
- Tuition

EDUCATIONAL AND GENERAL FUNDS EXPENSES

Educational and General Fund expenses are largely attributable to:

- Instruction
- Hospital/Clinics
- Operation and Maintenance of Plant

DESIGNATED FUNDS REVENUES

Designated Funds – These funds are also known as “Board-Designated Funds,” since the institution’s management or the Board of Regents has internally designated them for a specific use. These internal designations are not the same as external restrictions. The internal designation may be removed or altered at management’s discretion. The major revenues reported in this fund group include:

- Professional Fees from medical institutions’ practice plans
- Designated Tuition
- Sales and Services of Educational Activities

DESIGNATED FUNDS EXPENSES

Primary uses of Designated Funds include:

- Instruction
- Hospital/Clinics
- Institutional Support

AUXILIARY ENTERPRISE FUNDS

Auxiliary Enterprise Funds – An auxiliary enterprise exists to furnish goods or services to students, faculty or staff, and it assesses a charge directly related to, although not necessarily equal to, the costs of the goods or services.

Distinguishing characteristics of an auxiliary enterprise is that it is managed as a self-supporting activity. Examples of auxiliary enterprises include:

- Dormitories
- Athletic programs
- Food services
- Parking facilities
- Bookstores

AUXILIARY ENTERPRISES FUNDS REVENUES

There are two principal revenue categories in this fund group for the U. T. System:

- Tuition and Fees
- Auxiliary Enterprises

JOURNAL ENTRY EXAMPLE

To record the receipt of tuition and fees in E&G Funds:

Account/Transaction Description	Dr.	Cr.
Educational and General Funds		
Cash	117,439	
Tuition revenue (Increases Net Assets)		117,439

JOURNAL ENTRY EXAMPLE

To record the receipt of Auxiliary Enterprise Funds:

Account/Transaction Description	Dr.	Cr.
Auxiliary Enterprise Funds		
Cash	27,426	
Student Service Fees (Increases Net Assets)		27,246

Transfers Between Funds



- Mandatory – Transfer required by an external source
- Non-Mandatory – Transfer based on an internal management decision

Transfers Between Funds (Continued)

Transfers Between Funds – Transferring or moving money between various funds is accomplished with a transfer journal entry. Inter-fund transfers are classified as either Mandatory or Non-mandatory. If the transfer is required by an external source (i.e., bondholders or donors) it is referred to as a **Mandatory** transfer. **Non-mandatory** transfer is one based on an internal management decision. Transfers made to meet requirements of other Texas state agencies are recorded as transfers to/from other state agencies since U. T. System is part of the State of Texas Consolidated Annual Financial Report.

In Current Funds, a common Non-mandatory transfer would be the transfer of funds from Designated Funds to Educational and General Funds to fund various educational and general expenses.

Another example of a Non-mandatory transfer from Current Funds would be the transfer of the Designated Tuition Fee allocated to capital projects from Designated Funds to Unexpended Plant funds.

JOURNAL ENTRY EXAMPLE

To record non-mandatory transfer from E&G to Designated Funds:

Account/Transaction Description	Dr.	Cr.
Educational and General Funds		
Interfund Transfer (Reduces Net Assets)	4,975	
Cash		4,975
Designated Funds		
Cash	4,975	
Interfund Transfer (Increases Net Assets)		4,975

Due To/Due From Other Funds



One fund may need to advance funds to another fund on a temporary basis.

For example, a gift to the University may be contingent upon a particular building being constructed and named after the donor. Unrestricted Current Funds may be advanced to Unexpended Plant Funds to cover construction costs until receipt of the gift, at which time Unexpended Plant Funds would return the advanced funds.

JOURNAL ENTRY EXAMPLE

To record non-mandatory transfer from Designated Funds to Unexpended Plant Funds:

Account/Transaction Description	Dr.	Cr.
Designated Funds		
Due From Unexpended Plant funds	100,000	
Cash (No affect on Net Assets)		100,000
Unexpended Plant Funds		
Cash	100,000	
Due to Designated Funds (No affect on Net Assets)		100,000

RESTRICTED FUNDS

Restricted Current Funds consist primarily of gifts and sponsored program (grant and contract) funds from federal, state, and local governments, foundations, or private donors, which are restricted as to how they can be spent.

The largest donor categories are typically “private” and “federal.” The primary purposes for which these funds are expended are student aid and research. For reimbursement type grants, a portion of research costs is recovered from the donor as an “indirect cost recovery.” Utilities or custodial services attributable to sponsored projects are examples of reimbursable indirect costs. These expenses are generally recorded in Unrestricted Current Funds, normally in the Designated Funds category. The actual expenses are not directly traced to particular sponsored projects. Instead, an “indirect cost recovery rate” is calculated and applied to the project costs.

For example, a National Institutes of Health grant of \$100,000 with an indirect cost recovery rate of 50%, would be reimbursed at \$150,000 (\$100,000, plus \$100,000 x 50%).

JOURNAL ENTRY EXAMPLE

To record expenses for the direct and indirect expenses associated with a federal grant:

Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Expenses - Direct	100,000	
Cash (Reduces Net Assets)		100,000

JOURNAL ENTRY EXAMPLE

To record the entry to establish a receivable from the federal government and to reduce the amount of federal sponsored program revenue (related to indirect costs) that is later recognized in Designated Funds:

Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Federal Accounts Receivable	150,000	
Federal Sponsored Programs Revenue (Increases Net Assets)		150,000
Indirect Cost Recoveries Expense (Contra Revenue) (Decrease in Net Assets)	50,000	
Cash		50,000

JOURNAL ENTRY EXAMPLE

To record indirect costs recovered on federal grants as revenue in Designated Funds:

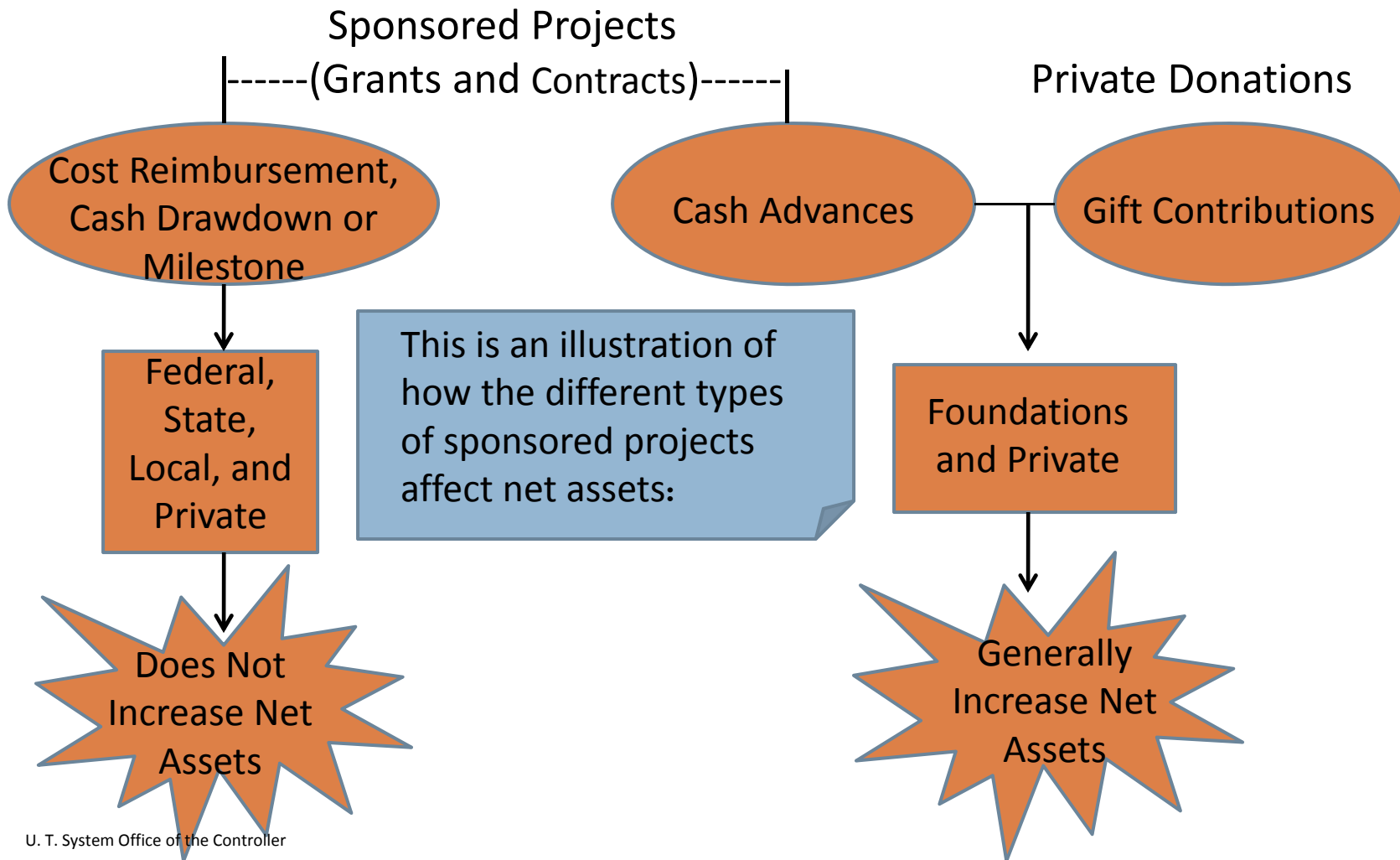
Account/Transaction Description	Dr.	Cr.
Designated Funds		
Cash	50,000	
Indirect Costs Recovered Revenue (Increases Net Assets)		50,000

JOURNAL ENTRY EXAMPLE

To record the cash reimbursement received from the federal government:

Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Cash	150,000	
Federal Accounts Receivable		150,000

RESTRICTED FUNDS



RESTRICTED FUNDS - PLEDGES

A private donor may pledge to give an institution a restricted gift for operating or capital construction purposes. Restrictions stipulated by the donor can take the form of time requirements (time period of when funds may be used) and purpose restrictions (purpose for which funds are required to be used). In these cases, the entire amount (recorded at present value if a multi-year pledge and offset with an uncollectible allowance, based on past experience) of the gift pledge is recognized when all applicable requirements are satisfied or funds are received, whichever occurs first. Restricted Net Assets increase by the amount of the gift pledge receivable.

When funds are transmitted in advance of all eligibility requirements being satisfied, then Restricted Net Assets do not increase because of deferred revenue liability is recognized. Indirect cost recoveries do not apply to gifts and gift pledge arrangements.

RESTRICTED FUNDS – PLEDGES (CONTINUED)

As an example, a four-year, \$1,000,000 gift pledge (\$250,000 per year) is received from a private donor to cover indigent hospital care (no eligibility requirement). In the financial statements, the present value discounted amount would be shown as a Gift Pledge Receivable in the amount of \$835,779 (present value) on the Balance Sheet (Exhibit A) and as gift revenue on the SRECNA (Exhibit B).

As the pledge is collected, the pledge receivable is reversed and cash is recognized on the Balance Sheet. The difference between the present valued pledge and the cash received is recorded as gift revenue on the SRECNA. Unlike cost reimbursement contracts and grants, gift revenues are not recognized to the extent of related expenses.

RESTRICTED FUNDS – PLEDGES (CONTINUED)



Finally, gift pledges for endowments, historical treasures, and similar assets to capitalized collections are only recognized in the financials when resources are received, provided that all eligibility requirements have been met. This treatment results from the time requirement that the institution must maintain indefinitely for these types of resources. Resulting Net Assets on the Balance sheet must be reported as restricted for as long as the provider's purpose restrictions or time requirements remain in effect.

CONCLUSION



You have completed this module of the Fund Accounting Training. Exit the training by clicking the link below and access the next module.

<http://www.utsystem.edu/cont/training.html>